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IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT",

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta April 18th, 1946

VOLUME 79

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I N D E X

VOLUME 79

April 18th, 1946.

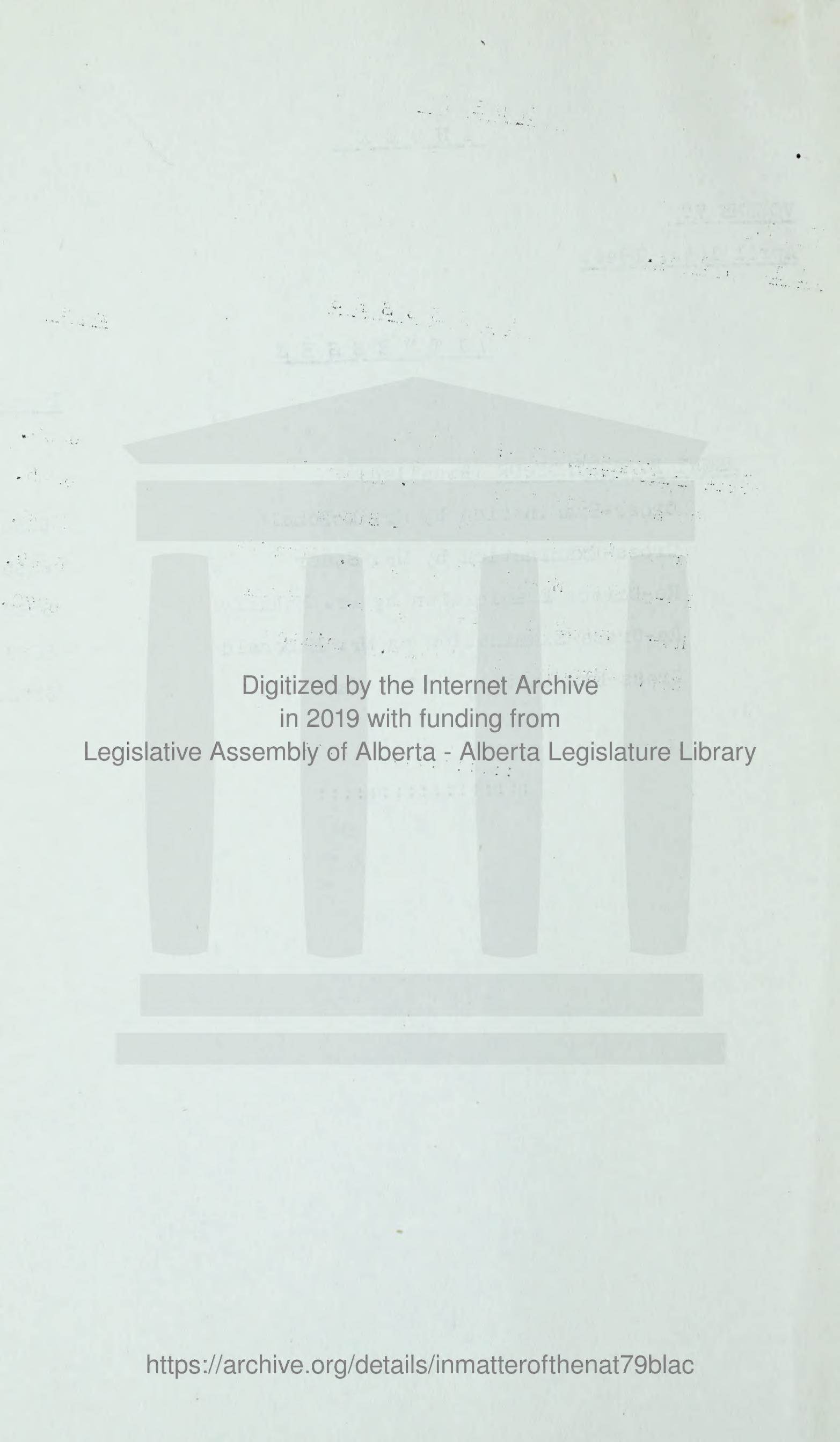
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A faint, light gray watermark of the Alberta Legislature building is visible in the background of the page. The building is a large, classical-style structure with a prominent central tower and multiple wings. The words "ALBERTA LEGISLATURE" are faintly visible above the entrance area.

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Thursday,
April 18th, 1946.

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H. B. Scrimgeour,
Cross-Exam. by Mr. McDonald.HENRY B. SCRIMGEOUR, Recalled.

THE CHAIRMAN: Mr. Steer, have you any cross-examination?

MR. STEER: No, sir.

THE CHAIRMAN: Mr. Fenerty?

MR. FENERTY: No, sir.

THE CHAIRMAN: Mr. Harvie?

MR. HARVIE: No, sir.

THE CHAIRMAN: Have you anything further, Mr. McDonald?

MR. McDONALD: Yes, there are one or two questions.

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. McDONALD.

Q Now, Mr. Scrimgeour, yesterday you made the statement that your submission with regard to the absorption plant operation is not based on your present combined operating experience. You have projected the operating costs as of a period from 1936, I think it is, to 1930.....

A 1935, '6 and '7.

Q And do I take it that your costs in fact now are lower than you have projected?

A Our costs are unknown, Mr. McDonald, at the moment. We have made no attempt to proportion or apportion the costs in our refinery unit.

Q Well then you cannot tell us whether it is lower or higher. Well in view of that uncertainty is your Company prepared to accept the same basis of division of absorption products as between the plant operator and the producer as should be directed in regard to one or other of the other plants that are operating in Turner Valley?

A I can answer that, Mr. McDonald, best by reading my last paragraph in the submission. The last paragraph reads as follows, or the last sentence: "We submit, therefore, that

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"for the reasons above quoted no change should be made in the natural gas contract now subsisting between this Company and the well operators."

Q That is purely a submission by your Company that you maintain the status quo. But you are not giving us any direct evidence, evidence that will support that submission. You have not got the present operating costs.

A No, we are unable to supply the Board with the present operating costs of this whole unit.

Q And there is some basis for argument that maybe your costs are low enough so that there should be a change in favour of the producers in the 80/20 split?

A The submission No. 2, Mr. McDonald, and under our operating costs, shows that if this unit were operated separately it would show a deficit.

Q Of course it is not operated separately?

A No, it is not.

Q And without a yardstick then of actual costs, which it occurs to me could be submitted to the Board, the same result which is established from the consideration of plants that are operated separately should be applied to your plant also.

A From an accounting standpoint it is impossible, Mr. McDonald, unless the Board should direct a method whereby these costs could be ascertained. As an accountant I know of no method whereby I could obtain from our existing records that information.

Q Now, Mr. Scrimgeour, with regard to this sale between Gas & Oil Products Limited and Gas & Oil Refineries Limited, can you tell us the particulars of the transaction? Was it a cash transaction?

MR. MAHAFFY: Mr. Chairman, rising on that point, I am

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just wondering how far my learned friend is entitled to pursue the enquiry on which he is now launched? We have explained that this sale was made in 1943 and it should be noted that at that time this Inquiry was not under way nor, perhaps we can assume, even thought of. Also it should be noted that at that time neither of the two companies involved were in any sense public utility companies, nor were any of the assets owned by them classified as Public Utility assets. That being so, I know of no basis on which my learned friend is entitled to the information which he is now asking for.

THE CHAIRMAN: He is entitled to it on the ground of relevancy. Take a look at your submission. You find you have an absorption unit valued at \$668,000.00 and crude oil units valued at \$744,000.00. Your absorption units do a fraction, a mere fraction of the total business of the plant and yet the assets which do the respective items of business are almost equal in value. Now your deficit is predicated on a rate of return on the \$668,000.00.

MR. MAHAFFY: Excuse me for interrupting, sir, but I would like to correct that. While you mention a figure for the absorption plant, the figure is \$464,000.00 on Page 2, Schedule "A".

THE CHAIRMAN: Yes, the lines are taken out. Nevertheless your lines are all part of your absorption plant. That is what the lines are there for, to carry gas to the absorption plant,

MR. MAHAFFY: That is quite true.

THE CHAIRMAN: So that the second point I am making is you have two assets of equal value, one doing a mere fraction of the business and when you are asking for a rate of return on those assets and when you say they were sold to this

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company on the basis of that value, then the consideration becomes pertinent and relevant. I cannot order you to produce it but if your clients do not produce it, they will simply have to take the consequences of what my Order might be.

MR. MAHAFFY: We are not asking for a rate of return on the absorption plant. The absorption plant is not a public utility. It is not subject to this Act except to the extent that you, sir, have given a direction to fix a division of the proceeds from that plant. Now we are not basing any rate of return on the cost of this absorption plant in any way, shape or form.

THE CHAIRMAN: You base your deficit on it though, Mr. Mahaffy.

MR. MAHAFFY: We are using it for this purpose only that it is something to be taken into consideration in determining whether or not the 80/20 split is fair at the present time. But in case of the pipe line, of course, that is entirely different. We are asking for a rate of return on that, but in respect to the absorption plant it is not being used to establish any rate base.

THE CHAIRMAN: No, but Mr. Mahaffy the submission is that because of the operating results that I should not disturb the present apportionment and in support of that submission or that argument, you present to me a statement which shows that if this plant were operated apart from the crude oil that you are losing very large amounts of money each year. And that statement is prepared on a public utility basis, and a very proper way to do it I think.

MR. MAHAFFY: Yes, the only way we thought it could be prepared.

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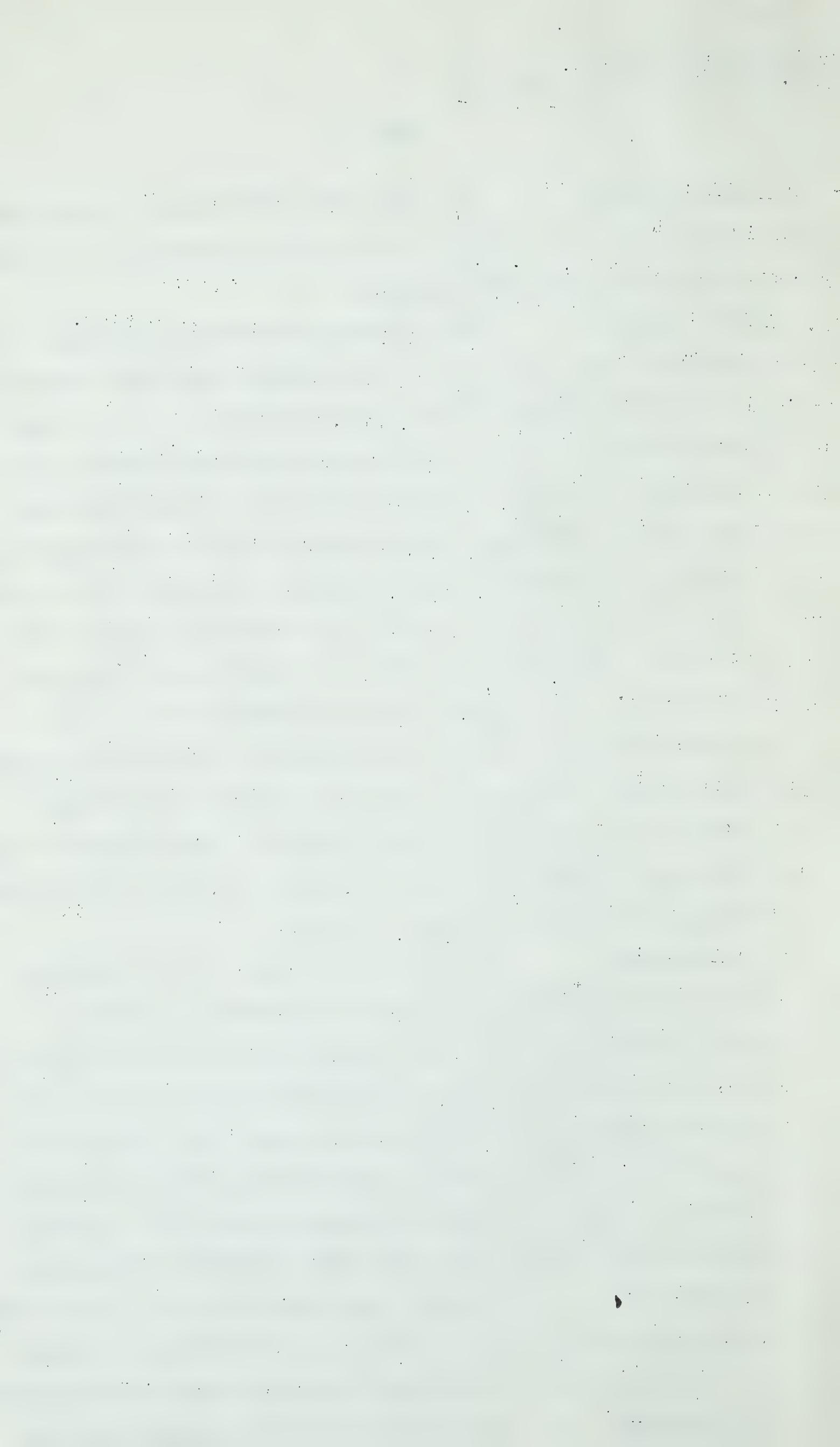
THE CHAIRMAN: Yes, and when you do that I am entitled to inquire as to whether or not you are entitled to a rate of return on the \$449,000.00.

MR. MAHAFFY: Well of course the whole thing was uncertain from our point of view being a combined operation. It is just guesswork from beginning to end as far as that is concerned. It does seem to me, sir, and I submit that whatever deal was made between the two companies prior to this Inquiry starting, prior to any of these assets having been declared public utilities, that we should not be called upon to disclose that information. Now these figures with respect to the absorption plant are based on an appraisal as you know, Mr. Chairman, made on September 1st, 1942. We contend, as I mentioned in connection with the gathering line system, that we are entitled, barring some contrary evidence being brought or some suspicion being thrown on us that these appraisals are not proper appraisals, then we are entitled to depend on those figures.

THE CHAIRMAN: Suppose, Mr. Mahaffy, that I decide in case of all the utilities that are involved, supposing I should decide that the rate base should be based on historical costs, then am I entitled to say because Gas & Oil Products have an appraisal and made a sale on some other basis altogether that we should make an exception in their favour and give you a rate of return on your appraised value? Merely because there was a sale between two integrated companies?

MR. MAHAFFY: I am not suggesting that, sir. But I am saying this that as far as the Gas & Oil Refineries Limited the historic cost is what they paid for it and there we stop.

THE CHAIRMAN: That is what we want to know, what did they pay for it?



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MR. MAHAFFY: If I have to go out and buy an automobile and pay a thousand dollars for it that is my cost and that is the complete history of my cost.

THE CHAIRMAN: Suppose you made an improvident bargain, am I to say that the producer in the field is to suffer because an improvident bargain was made?

MR. MAHAFFY: That is what I am saying, sir, if someone wants to suggest that and adduce evidence, that these figures are not reasonable, then it seems to me I have something to meet.

THE CHAIRMAN: Well there is an old rule about that. That is knowledge peculiar to and in the possession of your client and I think the onus is on you to produce it once it has been asked for.

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MR. MAHAFFY: Well I think I will take this position, Sir, that if you direct that this information must be produced we will produce it, but as I say I do not think, and I still submit that it is not proper that we should go behind this purchase.

THE CHAIRMAN: Well I am not going to order you to do it, Mr. Mahaffy. I think the Board should have the information. We have got to the stage now when I am not going to give any further orders. I will hear whatever evidence you have, that you think I should have and which you think is proper.

You can ask the question again, Mr. McDonald, and the witness can do as he pleases now how he answers it.

MR. McDONALD: I might point out, Mr. Chairman, that there is plenty of evidence, plenty of law with respect to where integrated companies, dealings between integrated companies are subject to investigation and where the matter of valuations and costs are concerned, the search has always gone back to the purchase by the producer, in this case the Gas & Oil Products, and for that reason I wish to have the information, unless my learned friend is willing to concede that the Board is entitled to look at historical costs in the first place as to the gathering lines.

MR. MAHAFFY: I do not concede that, Mr. Chairman. I did not object to Mr. Hamilton putting that evidence in, but I did not wish to put it in myself so far as my case is concerned.

MR. McDONALD: Now we are going on with regard to the absorption plant.

MR. MAHAFFY: If my learned friend is asking for historical costs, that is one thing, but he is not asking for that, he is asking for some details with respect to accounting

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which I contend is none of his business, subject to any order which you may make, Mr. Chairman, and if you care to direct that that should be produced we will produce it.

MR. McDONALD: My position is that I want the historical costs in order to test the valuation and to see as to rate bases. Now I am not interested at all in any details of the transactions between the two companies, so long as my learned friend will concede that the Board can use the historical costs as the basis of valuation if it is deemed desirable.

Q MR. McDONALD: Can you tell us, Mr. Scrimgeour, the historical costs of the items which you have relegated to the absorption plant in Schedule "A" on your report, Exhibit 172,

A This submission, Mr. McDonald, is from Gas & Oil Refineries of which I am the accountant.

Q Yes, but I am referring to the Gas & Oil Products historical costs?

A I am not representing Gas & Oil Products.

Q THE CHAIRMAN: Mr. Scrimgeour, you are a witness here and you were accountant for Gas & Oil Products, were you not?

A I was and still am, sir.

Q And, therefore, you can answer, amongst other things, any questions which they ask of you if the answer is within your knowledge. You are not here representing Gas & Oil Refineries, you are a witness before this Board in this Hearing, go ahead, Mr. McDonald.

Q MR. McDONALD: What I am looking for, Mr. Scrimgeour, is historical costs of the absorption unit, can they be provided from the records of the Gas & Oil Products?

A They can be provided, Mr. McDonald. I do not have them with me.

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Q What I would like to have is the same type of information which was abstracted by Mr. Hamilton and yourself with regard to the gathering lines, on a reasonable basis or a similar type of basis that was there used. Do you know when you could have that available?

A I would like approximately a week's time, Mr. McDonald.

Q What I have in mind is this, Mr. Scrimgeour, that the other companies, the other plants have submitted similar evidence and in order to deal with the three plants together it would require similar information from your plant?

A Well you appreciate, Mr. McDonald, it will take considerable time because the books of Gas & Oil Products insofar as the absorption plant is concerned, have been closed. The ledger sheets, I know, have been filed away and there is considerable work in abstracting that information. I would like some reasonable time to produce it.

Q Have you any reason or information, in your work with the Gas & Oil Products, upon which to base an opinion as to whether the historical costs are more or less than the figure of \$668,774.00?

A The historical costs are less, Mr. McDonald, than the appraisal figure.

Q THE CHAIRMAN: By approximately what percentage?

A I would be unable to answer that, sir, on account of the appraisal being the complete refinery and I would require my refinery superintendent to advise me which of the assets apply to the absorption plant and which to the crude oil refinery.

Q Have you not those set out in your report, No. 2?

A Taken, sir, from the appraisal but not taken from the books of the original Gas & Oil Products company. There is no detailed information such as submitted by the appraisal company.

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Q Quite true, but have you not some general idea of the percentage of difference between the value shown in your report and the historical costs?

A Not without referring to my records, sir.

Q I am not an accountant but I am dealing with these matters quite a lot and I have a pretty fair idea of it myself, of the percentage of difference between today's prices and prices ten years ago, and I thought you would have it too.

MR. McDONALD: I do not want the values down, Mr. Scrimgeour, to an exact figure, but an approximation is what I want?

A In connection with historical costs, Mr. McDonald, before depreciation?

Q Yes?

A As taken by the Company or after?

Q The original price paid for anything?

A That clarifies it for me, somewhat, then.

Q Yes?

A The historical costs were, sir, approximately 50% of the appraised costs, speaking from memory.

Q THE CHAIRMAN: Yes, and without suggesting that that is completely accurate?

A Yes.

MR. McDONALD: I am sorry, Sir, I did not catch the answer.

THE CHAIRMAN: The answer was 50%.

WITNESS:: Approximately 50%, Mr. McDonald, of the appraised costs.

Q MR. McDONALD: Yes. Now from that figure we could then calculate the depreciation on some basis, and do you recognize

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Mr. Hamilton used the accrued throughput basis in dealing with his?

A Yes, that is correct.

Q And the same throughput which went through the gathering lines of course would have gone through the absorption plant?

A Would have gone through the absorption plant.

Q Now can you tell us this, Mr. Scrimgeour, was the bulk of that expenditure made in the year 1934?

A Yes, a large majority of it was made in 1934.

Q Would it be fair to say that 75% was made in 1934?

A Yes.

Q And the balance made in the intervening period, say of three years or four years, were there any substantial additions since that time?

A Yes, there were during the war, we built at the request of oil controller, two units called the iso-butane and pentane units. The year in which they were constructed was 1942 and they went into operation in 1943. The approximate value of those was \$50,000, \$53,000 to give you the exact figure, as taken from the appraisal.

Q Oh yes, they are in the appraisal?

A Yes.

Q All right. Now in regard to the balance of the installations, were there any substantial additions between 1934 and 1943?

A No, sir, no.

Q So that for a fair approximation for calculating depreciation, if we take the balance after deducting \$53,000.00 from 1934, it would be a fair estimate of depreciation?

A \$53,000.00 would be entitled to its

Q Full depreciation?

A The depreciation for the years in which it was operated.

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Q Yes, but the balance can be depreciated from 1934.

A If we use the throughput method the question of years would not enter into it.

Q I know.

A That would not enter into it.

MR. McDONALD: That leaves us, I think, Mr. Chairman, at the point where we have some idea of historical costs of this unit. Now the next question is whether there is sufficient evidence before the Board to go back into the Gas & Oil Products account to make use of that information. Now if my learned friend will concede that this is an integrated company and the Board is entitled to look at historical costs and make use of them, then I have no further questions with regard to the agreement between the two companies. But if my learned friend takes the position we cannot go behind the information even although we have that information before the Board, I would require the details of these other transactions.

THE CHAIRMAN: We are in the same position, Mr. McDonald, as we were with Mr. Mercer. I do not think I will compel the Gas & Oil Products to do anything but you can ask this witness to produce these books, as the accountant of the Gas & Oil Products who has examined the books and if you want to do that you can.

MR. McDONALD: No, I am not worried about that. The information which he is giving us now is possibly sufficient for the purposes of the argument but if the Board is legally entitled to look at this information and fix this rate base on historical costs bases, disregarding the historical costs that the Gas & Oil Refineries have advanced.

THE CHAIRMAN: The only way that I know how we can

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get at that, Mr. McDonald, is by having the Gas & Oil Products' books produced here, unless they want to save us the trouble by filing statements but I will not order them to do that.

MR. McDONALD: . . . But the point I am making is that even if they did have the books here, this is the Gas & Oil Refineries Limited who are making the transaction and they can say that "any information in the Gas & Oil Products' books is not essential to our case" and then I might be met with that.

MR. STEER: Mr. Chairman, my learned friend Mr. McDonald started 5 or 6 minutes ago, with a question and I am very much interested in the answer to that question and I think perhaps the Board would be interested in the answer too and his question was: "What were the details of the transactions between Gas & Oil Products and Gas & Oil Refineries".

THE CHAIRMAN: Quite.

MR. STEER: And what I respectfully submit is that if we get those details then we will know whether or not we have a right to look at this question of historical costs.

THE CHAIRMAN: And then Mr. McDonald and I had a discussion and after we were through I said "Go ahead and ask your question", but he did not do it.

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MR. STEER: It has not been asked or answered.

MR. McDONALD: That is the question I intend to ask now. Will you tell us the details of the transaction between Gas & Oil Products and Gas & Oil Refineries, in which the assets were transferred from one corporation to another.

MR. STEER: Ask whether it was a sale for cash or a sale for shares.

A Am I at liberty to consult my Solicitor ?

THE CHAIRMAN: Mr. Scrimgeour, if you have that information I am going to tell you you must answer the question. It is relevant to the Inquiry.

MR. MAHAFFY: Perhaps if you do not mind me adding something to what you said, not that it affects it in any way. I think Mr. Scrimgeour if you give to the Chairman the details such as they are, of the transaction between Gas & Oil Products and Gas & Oil Refineries, which was incidentally a share transaction, then tell the Chairman what became of the shares of Gas & Oil Refineries which were acquired by the Gas & Oil Products.

A Based on the appraisal, Mr. McDonald, a consideration of 1,402,832 shares of no par value of the stock of Gas & Oil Refineries Limited was given as consideration for a transfer of the assets including the appraisal as made by the General Appraisal Company including all contracts, licenses, stock on hand, supplies, inventories, totalling as I said 1,402,832 shares of no par value. These shares were held as an investment by Gas & Oil Products until November 30th, 1945, when they were sold for a cash consideration of \$1,402,829.00 to a company called Kenilworth Investments Limited of Vancouver, British Columbia.

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Q That is ?

A Kenilworth Investments Limited.

Q Now can you tell me who are the owners of Kenilworth Investments Limited ?

A I have no knowledge, sir.

Q And the cash consideration of \$1,402,829.00 in cash has been paid into the bank account of Gas & Oil Products ?

A On November 30th, 1945.

Q Do you know whether Kenilworth Investments is a British Columbia corporation ?

A I have been so informed.

Q Is Gas & Oil Refineries Limited a no par share company ? What is the maximum which the shares can be issued for ?

A I am afraid I cannot answer, Mr. McDonald. This is outside of my department, sir.

MR. MAHAFFY: What is it you want, the authorized capital ?

MR. McDONALD: What I have in mind is whether the shares of no par value are to be issued at a maximum of fifty cents, one dollar or two dollars.

MR. MAHAFFY: I should know, but I do not.

THE CHAIRMAN: Do you want to pursue the question of historic cost any further Mr. McDonald ?

MR. McDONALD: I am faced with this difficulty. Mr. Scrimgeour will require a week or ten days to get his records together. It will exceed the time set for the completion of the evidence, but if he would undertake to provide some reasonable record of what the historic costs were and agree to file it so that it can be used in argument subsequently I would like to have it. If we had some approximation of what the evidence is going to be from the evidence he gave this morning.

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THE CHAIRMAN: And Mr. Scrimgeour cannot do that by next week and we will be adjourning until some time early in June and you can have it by then Mr. Scrimgeour ?

A Yes sir. Mr. Chairman, you ordered me yesterday to produce an amended operating statement based on - I have that.

CROSS-EXAMINED BY MR. STEER:

Q I would like to ask a question with regard to this Kenilworth transaction. Did you negotiate it ?

A No sir.

Q Did you have anything to do with the negotiation of it ?

A No sir.

Q The principle shareholder of Gas & Oil Products Limited would be who ?

A Mayland Limited I think is the largest.

Q Mayland Limited. Do you know anything at all about the shareholders of Kenilworth Investments Limited ?

A I have no knowledge, sir.

Q Do you know whether Mayland Limited has any interest in Kenilworth Investments Limited ?

A I have no knowledge.

Q And do you know whether or not Kenilworth Investments Limited when they made this purchase in November, 1945, had any knowledge that this Hearing was pending ?

A I would have no knowledge.

THE CHAIRMAN: All right, if you can give us that now.

A Referring to Schedule "D" of Report No. 2, absorption unit capital costs and operating costs. I have in front of me the figures as requested by the Chairman and I regret I had not sufficient time to have copies run off, sir. Might I

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suggest that the amended figures be placed in pencil alongside the existing figures to give the desired result. At the top left hand corner we have the capital investment in the absorption plant, less the gathering lines, of \$464,332.41. We have deducted 30% from that which is \$139,299.72, subtracted leaves \$325,032.69 as the investment which will become part of the calculation to follow.

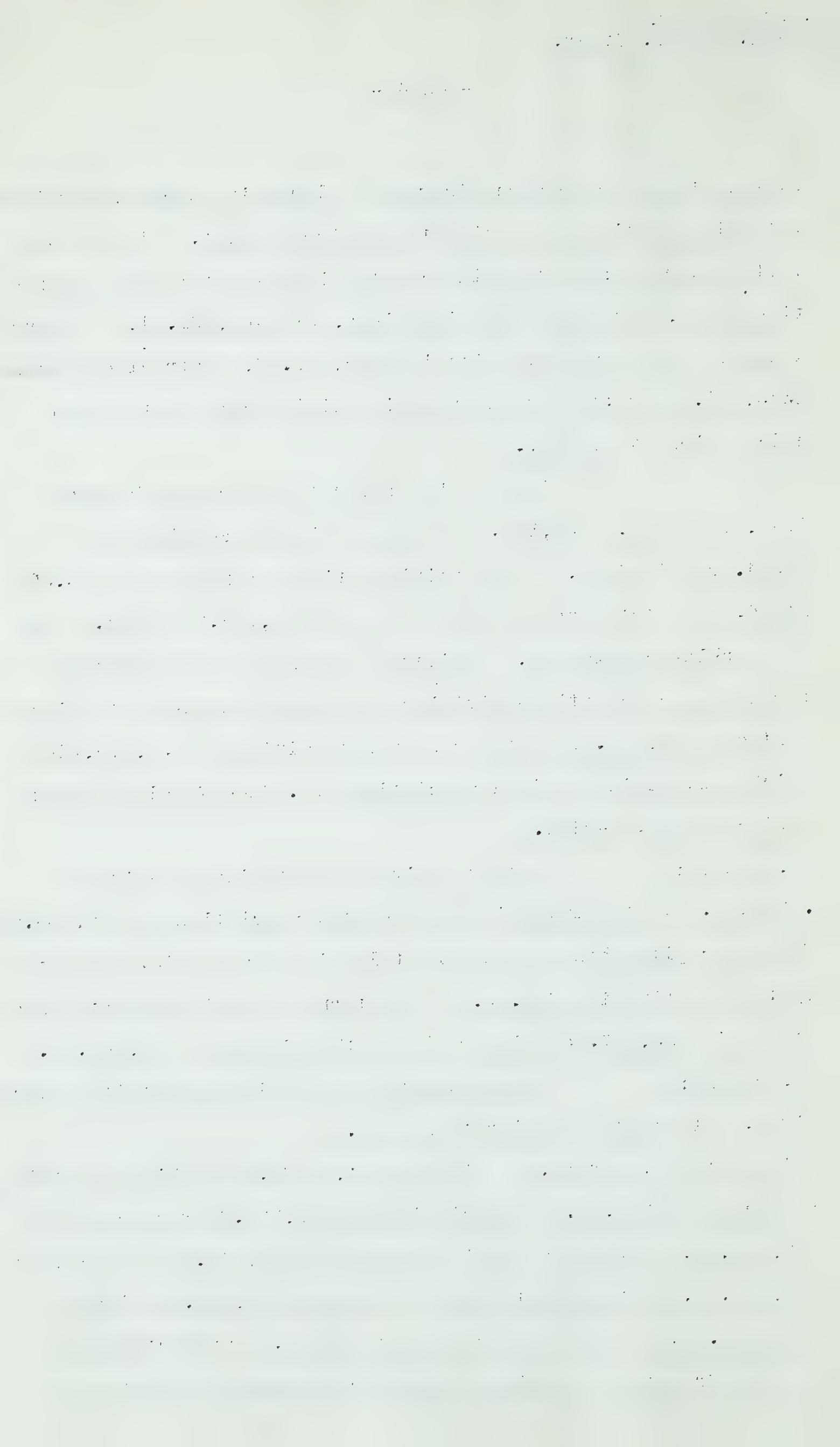
If you will refer to the column headed 1943, 9 months. \$55,831.09 stands as is. The chemicals of \$1544.89 stand as. The administration expenses of \$3602.30 stand. The total operating expense of \$60,978.28 stand. On the working capital Mr. Hamilton and I made the necessary throughput calculations dividing the dollar amount of the investment of \$325,032.69 by the reserves remaining of 37,298,310 which results in a unit depreciation of .8714407 which should replace the 1.2449154.

MR. HARVIE: Would you give me that figure again ?

A .8714407. That results in an amended depreciation of \$20,808.02. Working capital has been taken at 10% instead of 15.8333% at 1/8th resulting in \$762.23. The return on the investment based at 10% is \$23,597.15 which replaces the figure of \$71,165.99.

MR. HARVIE: Would you give us the figure that it replaces first. It would be easier to follow.

A All right, Mr. Harvie. I will repeat, \$772.39 working capital replaced by \$762.23. Depreciation of \$29,725.74 replaced by \$20,808.02. Return on the investment of \$71,165.99 replaced by \$23,597.15. Totalling these we replaced \$162,642.40 with \$106,145.68. The revenue remains the same. Subtracting the revenue from the operating expenses changes the deficit of



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\$89,022.32, to \$32,525.60. For 1944 -

THE CHAIRMAN: Would it not be better to add to that Mr. Scrimgeour, \$432,000.00 the amount paid to the producers. You pay them 20% of your revenue anyway ?

A That would be correct, but I was attempting to arrive at the gross first to see if there was sufficient to make that. We have of course already paid that 20% out.

1944 working capital earnings of \$1037.58 amended to \$1,023.93. The depreciation of \$48,645.33 amended to \$34,051.73.

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And then the interest on the declining investment of \$64,961.63 replaced by \$29,760.28. The total costs of \$196,558.67 replaced by \$146,750.07. The revenue remains the same. The deficit of \$80,697.05 replaced by \$30,888.45.

1945, the working capital of \$1,033.29 replaced by \$1,019.69. The depreciation of \$44,998.01 replaced by \$31,498.60. Return on the declining investment of \$57,548.20, replaced by \$25,442.36. The total costs of \$185,155.34 replaced by \$139,536.49. And the deficit of \$90,762.66 replaced by \$45,143.81. That, Sir, makes the adjustment that you requested yesterday.

THE CHAIRMAN: I do not suppose there is any cross-examination on that. It is pure arithmetic.

MR. MAHAFFY: Mr. Chairman, I would just like to bring out one or two points in that connection.

Q Mr. Scrimgeour, just to get it clear, as I understand it, as I understand it the \$464,332.41 figure is the appraisal figure?

A That is the appraisal figure, Mr. Mahaffy.

Q And I suppose that appraisal figure was value less 30%?

A Correct.

Q And now you have taken off a further 30%, is that right?

A Correct.

Q In accordance with the suggestion of the Chairman?

A Correct.

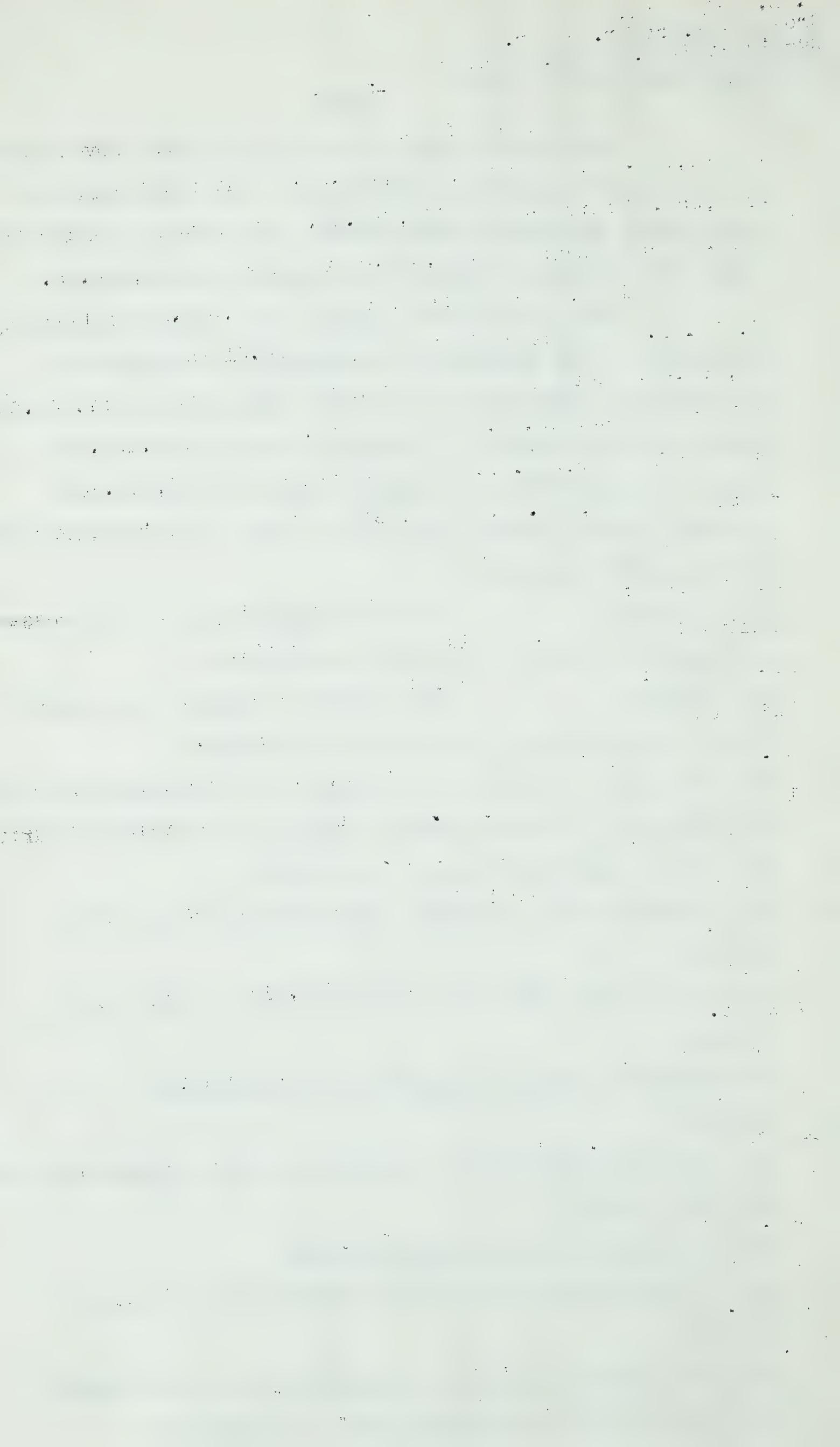
Q And instead of 15.8 odd of a return, you have figured this on the basis of 10%?

A Yes, figured it on the basis of 10%.

Q Out of which income tax would be payable, is that right?

A Correct.

Q Now, one further question, I understand all these figures were worked out in conjunction with Mr. Hamilton?



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A That is so.

Q You and Mr. Hamilton worked these out together?

A Correct.

Q That is all, thank you, Mr. Scrimgeour.

THE CHAIRMAN: Any further questions?

.....

CROSS-EXAMINATION BY MR. McDONALD.

Q Mr. Scrimgeour, to arrive at a true operating picture, you would add to your deficit in each instance the amount paid to the producers?

A That is correct, Mr. McDonald.

Q And in addition to that you would have to add whatever portion of gathering costs are allocated to the absorption plant operation?

A Yes, that is correct.

Q So that your total deficit in, say the year 1945, instead of being \$45,143.81 would be plus the payment to the producers, plus the gathering costs that were allocated, if added in total to that?

A If you wish to include the gathering costs as part of the absorption plant operations, yes.

Q Well, some proportion of them are going to be paid?

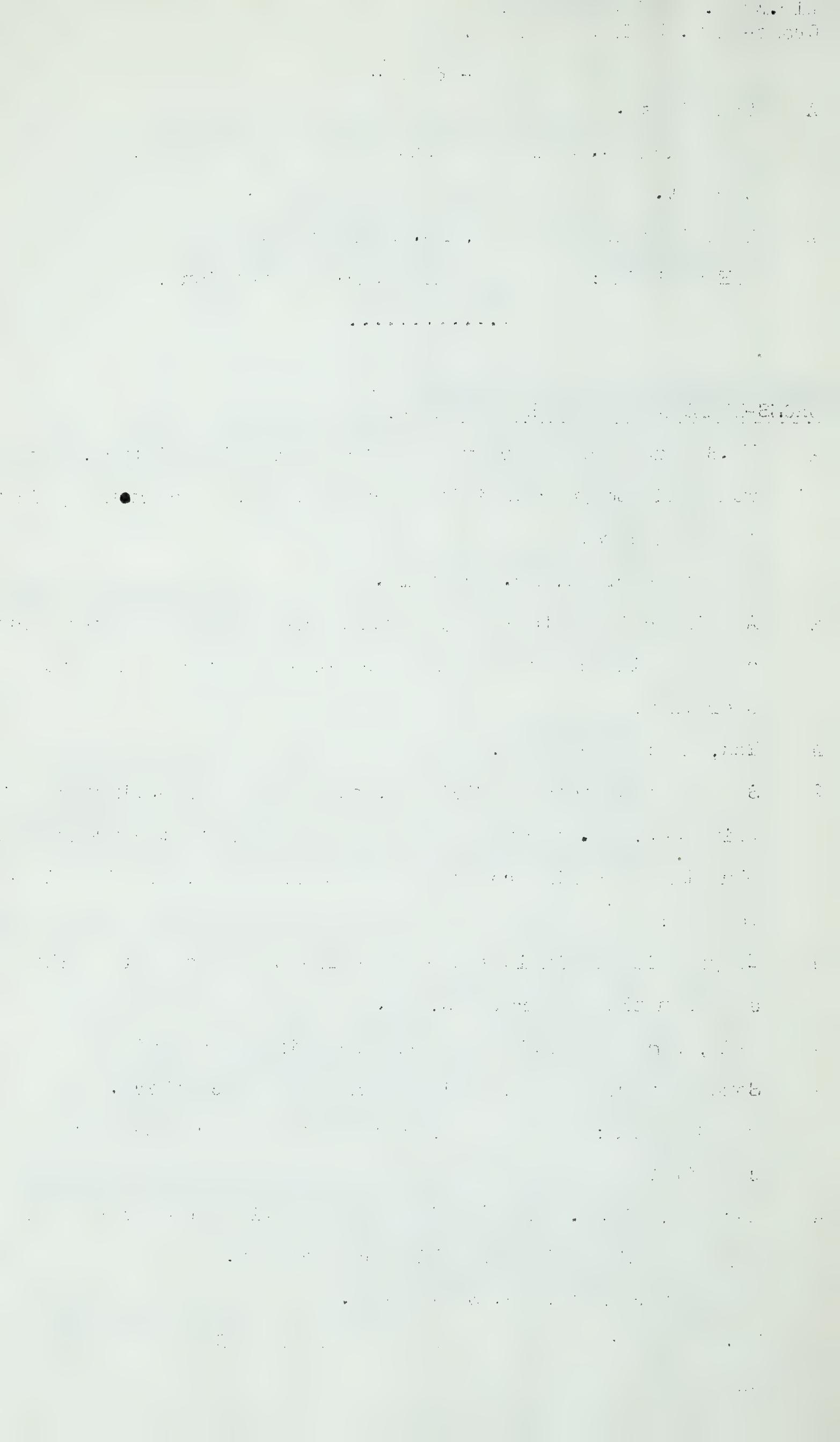
A Some proportion of it will eventually reach there.

Q THE CHAIRMAN: Did your plant ever operate to capacity?

A Yes sir, 1934. And '35 it was operating at or very near capacity of 65 million cubic feet per day.

Q Thanks very much, Mr. Scrimgeour.

MR. HAMILTON: I wonder if I could ask one question, sir?



H. B. Scrimgeour,
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THE CHAIRMAN: Yes.

.....

CROSS-EXAMINATION BY MR. HAMILTON

Q Pursuing that calculation we made yesterday, Mr. Scrimgeour, I would like to explore what amount would be left after paying direct operating costs for return on investment and depreciation. Take the year 1943, for example, you have total operating expenses of \$60,578.00, that is correct?

A Yes sir.

Q And revenue as per schedule "C" of \$73,620.00?

A Correct.

Q On which you make 20% payment to the producer, and that would leave you approximately \$59,000.00.

A Yes sir.

Q So that on the basis of the figures here, if that is your total out-of-pocket operating costs, \$61,000.00 approximately, and \$59,000.00, your total revenue, less what you pay the producer, there just cannot be any return at all, nor anything for depreciation?

A That is correct.

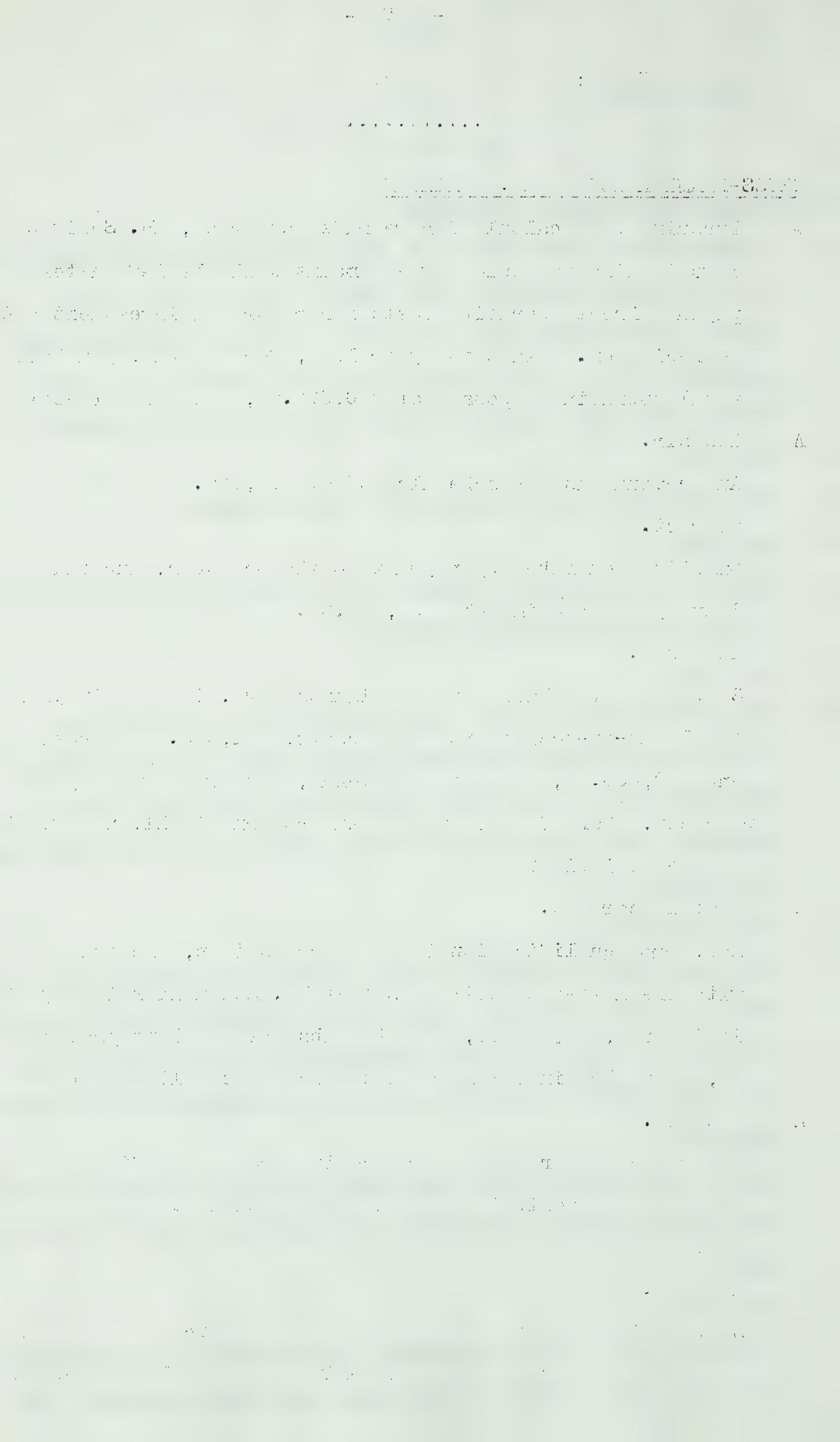
Q Now, one qualification to that proposition, and that has to do with the matter of still gas that Mr. McDonald raised yesterday. It is true, I take it, that the absorption plant processes, oh, about 10% in volume of gas which is supplied by the refinery?

A Yes sir.

Q And you could treat that gas coming from the refinery as coming from another well, if you like to possibly think of it in that way?

A Yes sir.

Q So that in addition to performing the service of an absorption plant for the purpose of recovering this total revenue you



H. B. Scrimgeour.
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have here, it also recovers something for the refinery?

A Yes sir.

Q Which is on the order of about a tenth?

A Yes.

Q And then making that adjustment for the year 1943, for example, whereas there is something left over for rate of return and depreciation it is a very small amount?

A I do not agree, Mr. Hamilton, that any consideration should be taken of still gas in this submission.

Q But if you did there would be a very small amount available?

A If we did there would be still a very small amount available.

Q Thank you.

THE CHAIRMAN: Anything further? You had better get away before Counsel get another idea, Mr. Scrimgeour.

THE WITNESS: I think so.

MR. MAHAFFY: Mr. Chairman, I am not trying to get out of any work, or save my clients any work, but in view of some of the facts that Mr. Hamilton has just drawn to your attention, I was just wondering if there is to be any object to be served in digging back into dusty old records to get the historical costs?

THE CHAIRMAN: I am afraid that is between you and Mr. McDonald to decide, Mr. Mahaffy.

MR. MAHAFFY: It would appear from these figures that we are getting nothing for depreciation, or for return on investment, and I do not suppose that any one of us is optimistic enough to think that the situation is going to substantially improve in the next few years.

THE CHAIRMAN: My 30% was arrived at this way: Evidence was given before me in 1943 that the increase of labour and material between 1929 and 1943 was 23.2%, and we all know

that there has been an advance in prices since 1942, and I took it at 30%, and that was the basis on which I asked Mr. Scrimgeour to get me those figures.

MR. McDONALD: It might be, Mr. Chairman, that after I have had an opportunity of discussing this with Mr. Scrimgeour and Mr. Mahaffy, that we can arrive at something, in which event I will then file a letter both with the Board and Mr. Mahaffy, as to my views in the matter.

MR. MAHAFFY: May I take it then, Mr. Chairman, that as far as the others are concerned, unless Mr. McDonald wants a statement, I do not need to submit it?

THE CHAIRMAN: That is correct, unless someone else wishes it. You can agree upon that between yourselves. Anything further this morning? I had intended asking Mr. Hamilton to give evidence with respect to the Royalite figures which he prepared. Mr. Chambers could not be here today, and asked if that could be deferred until next week. I was not very anxious to bring Mr. Hamilton back next week, but Mr. Chambers has never asked for an adjournment or anything since the Hearing started, and I felt that I had to simply say yes. So that if there is nothing else, we will adjourn until 9.30 on Tuesday morning next.

MR. HARVIE: With the idea of sitting Tuesday, Wednesday and Thursday?

THE CHAIRMAN: Yes, Tuesday, Wednesday and Thursday.

(The Hearing was then adjourned to 9.30 a.m., Tuesday, April 23rd, 1946.)

